ANNUAL REPORT 1968

Kenting

OFFICERS

D. N. KENDALL
President

J. W. STRATH
Vice-President and General Manager

G. F. COOTE
Vice-President, Science & Technology

D. J. FLEMING
Vice-President, Marketing

G. D. ROSS
Vice-President, Finance

B. F. KENNERLY
Secretary

KENTING

HEAD OFFICE KENTING LIMITED

P.O. Box 187,
Toronto-Dominion Centre
Toronto, Ontario

DIVISIONAL OFFICES

BIG INDIAN DRILLING DIVISION
1318 - 9th Ave. S.E., Calgary, Alberta
Telephone 265-6480

CANADIAN WELL SERVICES AND TANK DIVISION
510 - 5th St. S.W., Calgary, Alberta
Telephone 263-4970

HUNTEC DIVISION
1450 - O'Connor Drive
Toronto, Ontario
Telephone 751-1244

KENTING AVIATION DIVISION
P.O. Box 6024
Toronto A.M.F., Ontario
Telephone 677-6721

KENTING LIMITED (Divisional Operating Office)
525 - 6th St. S.W., Calgary, Alberta
Telephone 263-2980

KENTING PETROLEUM GEOPHYSICS DIVISION
524 - 11th Ave. S.W., Calgary, Alberta
Telephone 263-1701

KLONDIKE HELICOPTER DIVISION
Hangar No. 1, McCall Airport
Calgary, Alberta
Telephone 277-8526

PETROLIA DRILLING DIVISION
600 - 6th Ave. S.W., Calgary, Alberta
Telephone 263-2980

KENTING OILWELL DRILLING DIVISION
509 - 3rd Street S.W., Calgary, Alberta
Telephone 265-5680

KENTING OFFSHORE DIVISION
525 - 6th St. S.W., Calgary, Alberta
Telephone 263-2980

OPERATIONS OFFICES

Toronto; Calgary; Edmonton;
Whitehorse, Y.T.; Fort Smith, N.W.T.;
Hay River, N.W.T.; Gillam, Manitoba;
Georgetown, Guyana; Sydney, Australia

TRANSFER AGENTS

Royal Trust Co.

AUDITORS

Price Waterhouse & Co.

SOLICITORS

Fraser Beatty & Co. – Toronto
Howard Moore Dixon Mackie & Forsyth – Calgary

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Canadian Stock Exchange

DIRECTORS

J. C. ANDERSON
Vice-President and General Manager
Allied Equipment Ltd. — Calgary

G. F. COOTE
President,
Kenting Exploration Services Ltd. — Calgary

J. K. FARRIES
President,
Canadian Well Services and Tank Co. Ltd. — Calgary

D. J. FLEMING
Vice-President, Marketing
Kenting Limited — Calgary

J. R. HUGHES
Chairman,
Royal Securities Corporation Limited — Montreal

C. C. HUSTON, Mining Engineer
President, C. C. Huston & Associates — Toronto

D. N. KENDALL
President, Kenting Limited — Toronto

D. A. McINTOSH, Q.C.
Partner, Fraser Beatty & Co. — Toronto

J. H. MOWBRAY JONES
Director, Bank of Montreal — Montreal

P. F. OSLER
Partner, Mead & Co. Limited — Montreal

A. E. PALLISTER
Division Manager, Pallister & Associates — Calgary

D. S. PATERSON
Vice-President,
N. M. Paterson & Sons Ltd. — Winnipeg

DR. N. R. PATERSON
Huntec Division — Toronto

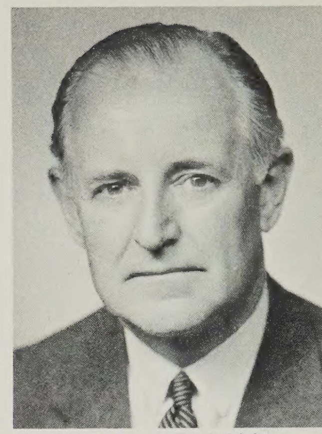
G. D. ROSS
Vice-President, Finance
Kenting Limited — Calgary

A. F. SOUTAR
President,
Field Aviation Company Limited — Toronto

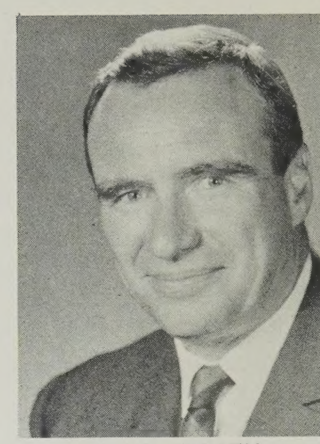
J. W. STRATH
Vice-President and General Manager
Kenting Limited — Calgary

A. VANDEN BRINK
President
Petrolia Oilwell Drilling Ltd. — Calgary

TO THE SHAREHOLDERS



D. N. KENDALL
President



J. W. STRATH
Vice-President
and General Manager

Earnings from all sources for the year ended 31st December 1968 amounted to $907,000 before income taxes, compared with $1,240,000 in 1967. However from this must be deducted $110,000 for income taxes payable, $307,000 for deferred income taxes and $146,000 to pay our preferred dividends, leaving $344,000 or $1.11 per share, as the earnings on the 309,585 shares outstanding on a weighted average basis. This compares with $2.08 per share earned on a pooled basis in 1967. (See P.21)

Gross revenue in 1968 amounted to $13,856,000 compared with $9,855,000 in 1967, a satisfactory rate of growth, although in large part accounted for by new acquisitions.

Kenting, as it is now constituted, was the result of a series of mergers which began in September 1967 and continued in 1968. The purpose of the mergers was to create a concept under which integrated exploration services could be provided to the oil and mining industries.

The merged entity had no corporate staff, other than myself, but had added in the acquisition process a number of proven and able managers in their respective fields. One of the main tasks of 1968 was to realign and define management responsibilities in order to create a cohesive team which could then handle the future growth. This took time and created some problems but was completed in January 1969. The management team now consists of a Vice-President and General Manager (Mr. J. W. Strath) to co-ordinate operations, a Vice-President, Science and Technology (Mr. G. F. Coote), a Vice-President, Marketing (Mr. D. J. Fleming) and a Vice-President, Finance (Mr. G. D. Ross). The closer management supervision now possible should enable profit margins to be improved in 1969.

The drop in expected earnings resulted mainly from three causes: a fall-off in business in the 1967/68 winter; an early spring break-up, and the investment in our Operation Geoquest.

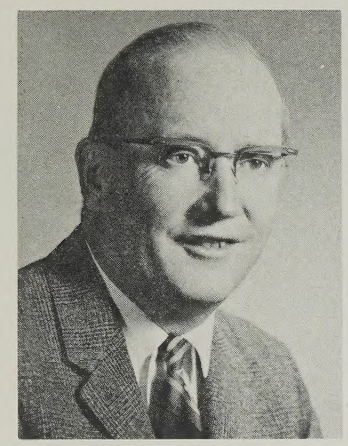
Operation Geoquest is an exploration program which we are conducting covering an area of 75,000 square miles in the North West Territories. Under it your Company carried out geological and geophysical studies, with the ownership of the bulk of the data belonging to Kenting. The data is then sold to interested oil companies.

Before proceeding with the program, which involved expenditures by Kenting well in excess of $1,000,000, commitments to purchase the data were secured from 22 oil companies, covering 75% of the outlays. Thus the investment by Kenting, while significant, seemed well justified in the light of sizeable future sales. The advantage of the program was that it put to work available capacity in our consulting, seismic, gravity, helicopter, drilling and computer facilities.

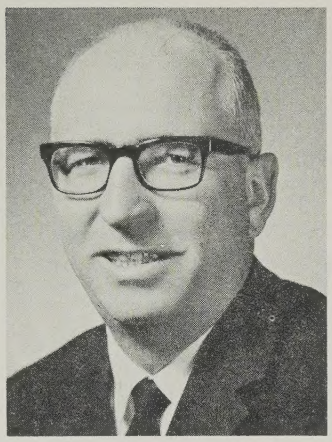
The programme over-ran budgets due to some expansion of the field services. Additional sales did develop, as expected, but at year-end we had still not fully recovered through sales our total costs.

The program is divided in two main stages, the first of which covers steps which were completed in 1968 and the second those which complete only in 1969. The expenditures on the latter in 1968 are being carried at cost as work in progress. Since their execution absorbed a significant part of our productive capacity in 1968 it follows that the elimination of earnings from this capacity was a factor in our reduced performance.

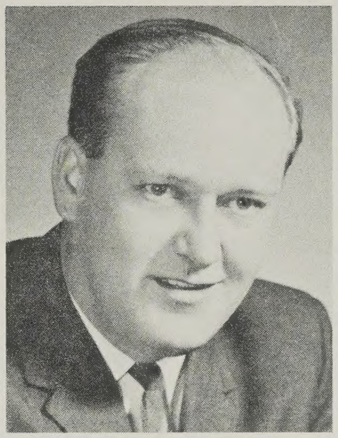
This naturally concerned us greatly and we accordingly retained outside consultants to evaluate our future Geoquest sales. These consultants predict



G. F. COOTE
Vice-President,
Science & Technology



D. J. FLEMING
Vice-President, Marketing



G. D. ROSS
Vice-President, Finance

that additional sales of at least $1,000,000 will be made during 1969 and 1970, which would result in a useful addition to future earnings.

We are convinced that our decision to proceed with Operation Geoquest was wise and will prove to be profitable. It has shown that our concept of an integrated service to the oil industry is sound and has resulted not only in establishing excellent relations with a large additional clientele, but also has opened the door to further similar programmes. Indeed we are now proceeding with an even larger programme in the Mackenzie Delta, known as Operation Arcticquest, and have two other programmes in the planning stage. Benefitting from our experience with Geoquest we have adopted formulas which eliminate the financial exposure which we incurred with Geoquest.

BALANCE SHEET

The balance sheet shows a working capital a little in excess of $1,000,000. The current portion of the long term debt, amounting to $964,617, is large but is covered over the year by an off-setting cash flow from the use of the equipment so financed. It represents a burden, therefore, which we are able to carry. The nature of our business, particularly drilling and aviation, is capital intensive but financing is readily available from the manufacturers or others and the resultant cash flow enables debt to be retired over relatively short periods.

During the year we were able to raise $1,250,000 in the form of an unsecured convertible debenture. This largely accounts for our increase in long term debt. This money was used mainly to improve working capital, as well as to make certain capital expenditures.

As in last year's report, we are showing five year comparative figures for Kenting Limited as a corporation, as well as on a "pooling of interests" basis.

ACQUISITIONS IN 1968

During 1968 the following acquisitions were made:

Huntec Limited:
This acquisition was foreshadowed in the last Annual Report. It was closed in April 1968.

Canadian Well Services and Tank Co. Ltd.:
This acquisition was closed in July, 1968.

Big Indian Drilling Co. Ltd.:
This acquisition was closed in October, 1968.

MAJOR DEVELOPMENTS

Kenting Off-Shore Division

In November 1968 your Company was awarded a three-year contract by Canadian Pacific Oil and Gas Ltd. to build, own and operate an off-shore oil rig. In December 1968, following a call for tenders, a contract to build this vessel was let to Davie Ship Yard, Lauzon, Quebec. The vessel will be launched in early May 1969 and drilling should start in June. At this point construction is on schedule. This large investment has been financed by a term loan from a chartered bank. Once this rig is in full production, which will not be achieved until its first full year in 1970, it is expected to make a satisfactory contribution to earnings.

This rig has been set up in a separate division under the name Kenting Off-Shore. To manage this division we were fortunate in securing the services of Mr. E. Kwadas who was formerly the Chief Engineer of one of the largest U.S. companies in the off-shore drilling business.

CDP Computer Data Processors Ltd.

With the acquisition of Accurate Exploration Ltd. in September 1967 Kenting became the owner of a 43% investment in CDP Computer Data Processors Ltd., a computer centre in Calgary with advanced technology in geophysical and geological data handling. In January 1969 this company made a public issue of additional shares, bringing into its treasury a sizeable sum of cash, as a consequence of which our shareholding was diluted to about 30%. Prior to the public issue we held 88,945 shares with a book value of $250,615. In January 1969 we sold 14,920 shares for $170,208 and have recently sold a further 30,000 shares for $301,001.

Contract with King Resources Ltd.

We have been awarded a large contract by King Resources Ltd. for work in the Sverdrup Basin in 1969 lying North of the magnetic pole. Under this contract a number of our divisions will be involved covering consulting services, gravity geophysical surveys, both on and off-shore, drilling for sulphur using our heli-drills and the use of three of our turbine helicopters to move the rigs and personnel. This is another example of the integrated service which we can provide.

Drilling Operations - Alaska

In response to heavy demands for our patented HELI-DRILL we are currently manufacturing 20 additional units in our Big Indian Division to meet contractual commitments on the Alaska North Slope. We expect good earnings from these units in 1969.

Foreign Contracts

The build up of our foreign work is continuing and we currently have in hand work in the U.S.A., Chile, Guayana, Sudan, Australia and Malaysia.

PROSPECTS FOR 1969

We expect an increase in our gross business in 1969 which we believe will in turn be reflected in better earnings. At this date much of our capacity for 1969 is already fully committed and it would appear that the demand for our type of services from both the oil and mining industries is at high levels. This is not surprising in the light of the large acreages taken out by oil and mining companies in the North, all of which involve substantial work commitments. Our long term policies remain unchanged. We are anxious to grow both from within and by acquisitions, provided that the latter fit our concept and improve per share earnings. We are currently concentrating our management efforts on improving profit margins and on internal growth; however one, possibly two, acquisitions may be made during 1969.

As previously announced, discussions have been taking place regarding the possibility of a merger with Inspiration Limited through an offer by Kenting to the Inspiration shareholders. These discussions are continuing and you will be advised as soon as there are any significant developments.

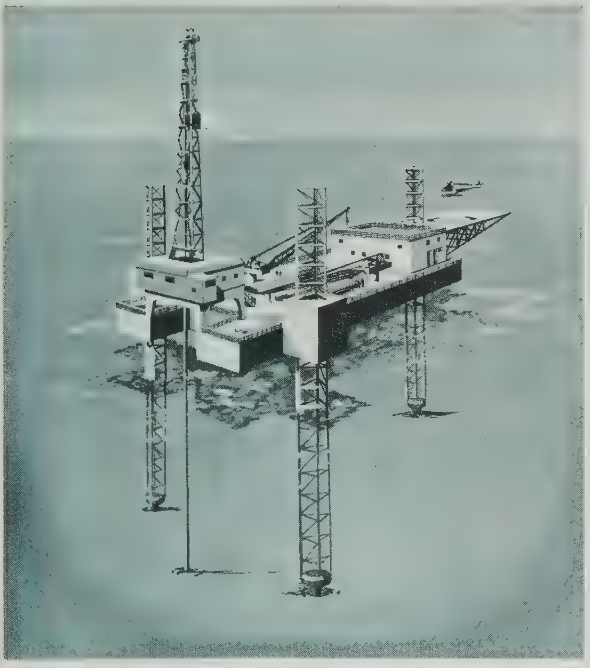
In closing your Directors wish to express their sincere thanks to the staff in all Divisions who have worked hard and well in creating our new corporate organization. We have also decided to reduce the size of the Board which at 18 is somewhat large, being the combination of a number of boards at the time of merger. We are asking you to approve the appropriate By-Law to reduce the Board to twelve. The retiring Directors have all made major contributions to the success of your Company in the past and a great debt is owed to them.

D. N. Kendall

D. N. KENDALL, President.

KENTING

Artist's concept of Kenting Offshore drilling platform scheduled to begin operations in Lake Erie in June.



Kenting deep rig on location in Alberta.

KENTING DIVISIONAL ACTIVITIES

DRILLING

Kenting Drilling services were considerably expanded in 1968. The merger with Big Indian Drilling provided the company with capability in mining drilling, shot hole drilling, ground water drilling, and construction drilling. The company also gained the rights to Big Indian's HELI-DRILL, a patented drilling rig portable by helicopter.

Also in 1968 Kenting was successful in negotiating a major contract for offshore drilling. The three year contract with Canadian Pacific Oil & Gas calls for construction of a $2.8 million mobile offshore drilling unit, to be owned by Kenting. The unit will be as large as a 20 storey office building and capable of drilling to a depth of 4500' in up to 150' of water. It is presently under construction and is scheduled to start operating in June 1969.

Profits from wildcat and development drilling for oil and gas were down in 1968 as a result of a very short winter season which caused an early breakup of access roads. This type of fluctuation is a characteristic of oilwell drilling. The industry is highly vulnerable to and dependent on weather conditions and also on exploration plays. However, a recent gas discovery at Strachan in the Foothills of Alberta, along with continuation of activity in Northeastern British Columbia and Northern Alberta, promises an encouraging outlook for 1969.

A new division called Kenting Oilwell Drilling has been set up for the purpose of drilling shallow wells in the 1500' to 5000' range. This decentralization is intended to provide a higher concentration of service to clients requiring shallow wells.

A substantial increase in shallow production drilling highlighted activities of the new Big Indian Drilling subsidiary. Increased sales were also recorded in mining drilling.

The company's patented HELI-DRILL is capable of drilling a seismic hole in the most rugged terrain. This is accomplished by moving the drill by helicopter, eliminating the need for surface transportation across rivers, mountains and muskeg. The HELI-DRILL is being used by the $20 million Panarctic project in the Arctic Islands, and several other far north exploration programs (including the Kenting sponsored Operation Geoquest).

Huntec induced polarization transmitter helps in mineral search.

Kenting geophysical experts use most advanced recording instruments.

MINING EXPLORATION

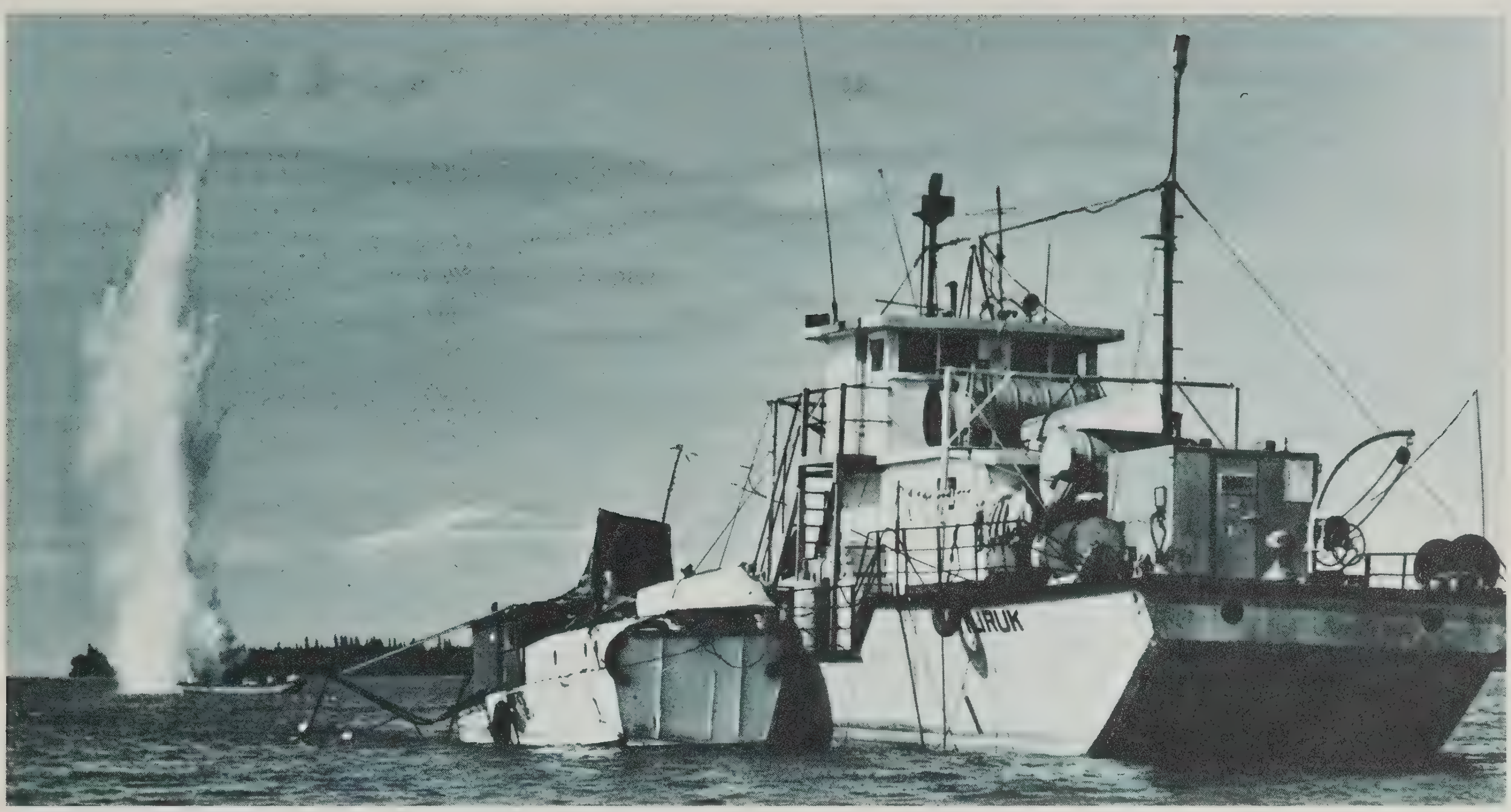
Kenting's major operating subsidiary in the mining industry is Huntec a company which was acquired in April 1968. Huntec is one of the largest companies in the world engaged in mining geophysics, having played a significant role in many of Canada's discoveries. It has had wide experience on behalf of mining companies and aid agencies overseas. It also has an instrument manufacturing division and a research and development division.

The Mining Services Division of Big Indian negotiated a contract for drilling in Chile, and equipment and personnel were moved to that country in December, 1968.

During 1968 Huntec provided 10 crews and prospecting parties in the Coppermine River area of the Northwest Territories, which was the prime target for mineral exploration in Canada in 1968. Another major undertaking was an integrated gravity, magnetic and seismic survey at Schifferville, Quebec for the Iron Ore Company of Canada.

In Western Australia around the Kalgoorlie region Huntec provided seismic services for a number of large companies. In the United Arab Republic the company provided interpretation for a large scale aerial survey for the U.N., and has since been awarded a further contract for computerized interpretation data.

Induced polarization surveys were also carried out on properties in Arizona, Nevada and Idaho.



Seismic explosions on Mackenzie River were part of Geoquest project.

PETROLEUM EXPLORATION

The highlight of Kenting's petroleum exploration activity in 1968 was the formulation and carrying out of Operation Geoquest and the start of Operation Arctiquest. Geoquest is an integrated exploration program utilizing aerial, land and marine seismic techniques over a wide area of the Northwest Territories. The project was sponsored by Kenting and managed by Pallister & Associates, a Kenting subsidiary. Other Kenting services utilized were field seismic crews (Accurate Exploration – now Kenting Petroleum Geophysics), gravity surveys (Huntec), HELI-DRILL (Big Indian Drilling), data playback (C.D.P.) and interpretation (Pallister and Associates).

The company also contracted seismic land surveys in the N.W.T., Northwestern and Central Alberta and Southern Saskatchewan.

Two binary gain digital seismic recording units were purchased in 1968 to improve the resolution of seismic data produced by the company.

Geoquest took Kenting people into Canada's northern wilderness to study rock structures deep in the earth.

New Klondike 15 passenger Helicopter can lift Big Indian patented HELI-DRILL with ease.

AIR TRANSPORTATION AND SURVEY

HELICOPTER

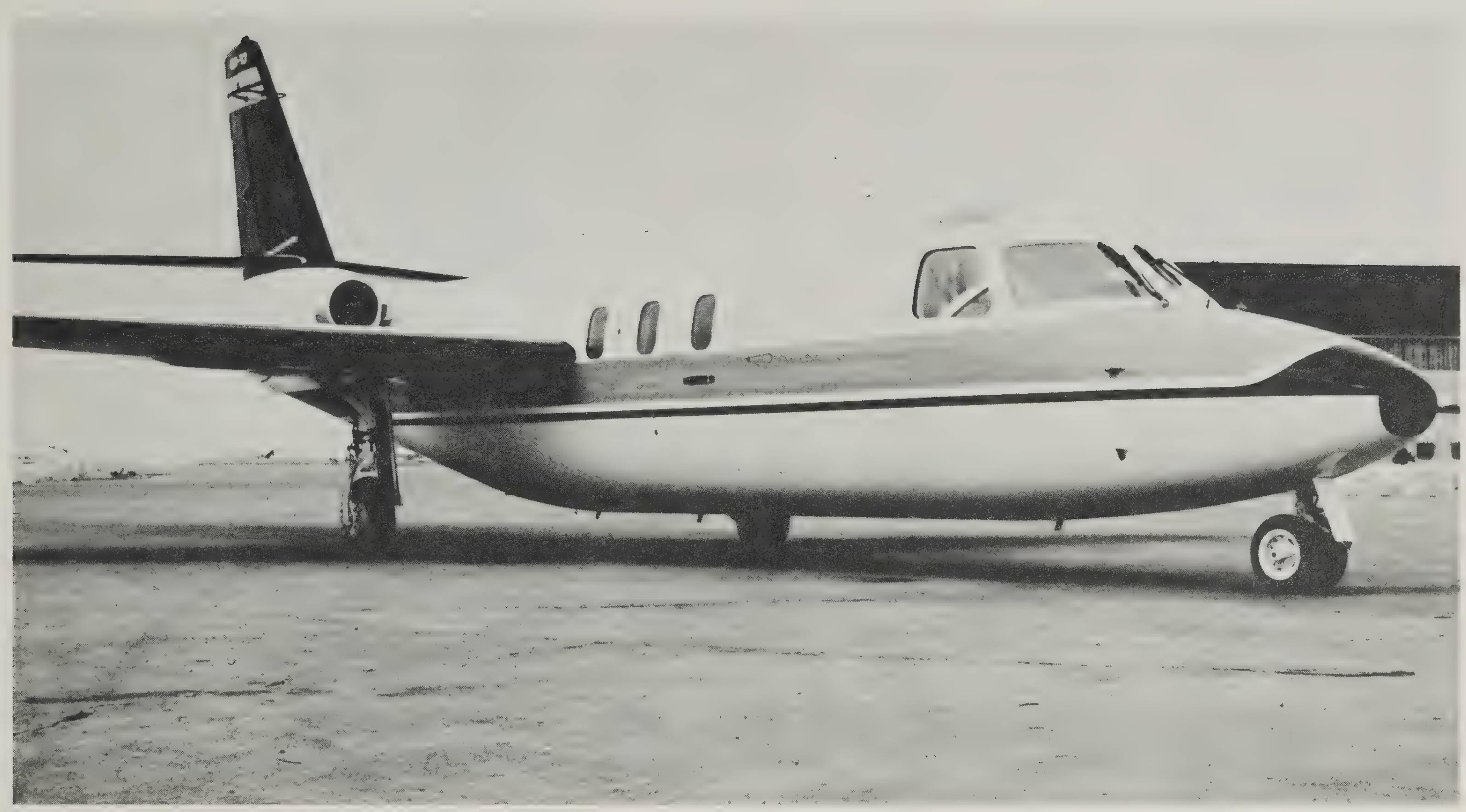
The Klondike Helicopter division, which is Canada's second largest owner of helicopters, provided extensive survey and transportation services in 1968.

Aerial survey operations were conducted under two contracts in Guyana. One is a forestry inventory survey under the auspices of the U.N.F.A.O., and the other is a topographical mapping survey, an extension of a 1967 Canadian external aid project. The U.N. contract is expected to continue into 1970, and a new Guyana contract has been signed with Dennison Mines Ltd. beginning in February, 1969.

General operations were slower than usual from January through to May but picked up sharply for the balance of the year. The division worked in six provinces and two territories of Canada.

A contract was obtained to operate a helicopter for CFRB, Toronto. The Division continued operations on the Granduc Mines project in B.C. – a new 3 year contract was signed to provide forest protection in the Yukon.

Early in 1969 the company acquired a Bell 205AI helicopter capable of carrying 15 persons and a 5,000 pound load. This is the largest helicopter in Western Canada. In 1968 three turbine helicopters were added to the fleet, one of which will be used on the Yukon forestry contract.



New Kenting jet is leased to companies for fast executive movement.

FIXED WING

The long term ice reconnaissance survey for the Canadian government, using converted DC4 aircraft, continued satisfactorily through 1968.

The fixed wing division began an association with Geoterrex, an Ottawa based aerial survey company which it is hoped will grow into the provision of a number of fixed wing aircraft on behalf of that company. Already a Beech Queenair has been contracted on a year 'round basis. This aircraft has worked with Geoterrex all the way from the Canadian Arctic to Guatemala.

Water bombing activities were carried out in France and Canada and a new contract was signed for services in Chile. This is effective for Kenting because it is a seasonal offset during the slow season in Canada. A company B17 provided aerial photographic survey in Greenland, on behalf of the Danish government.

A new Jet Commander aircraft was acquired, and it will be operated out of Toronto on executive jet charter. Other leasing and rental activities for the company's fleet of executive aircraft continued successfully through 1968.

The company did a feasibility study for a feeder airline in southwestern Ontario and in anticipation of entering this business, purchased options on two Twin Otters. The study revealed that it would be premature to enter this business and Kenting has since released the options.

Kenting water bomber douses forest fire. They pick up water by flying across surface of lakes.

OILFIELD CONSTRUCTION AND PIPELINING


Oilfield treater built and operated by Canadian Well Services.

This new division was set up as a result of the acquisition in July of Canadian Well Services and Tank Co. Ltd. Canadian Well is a Calgary based company which installs gathering systems and small pipelines, manages and operates oilfields and carries out oilfield construction.

After the acquisition was completed, the pipeline construction division of the company was expanded in anticipation of greater demands in 1969. Contracts have already been negotiated and work is in progress on two projects at the Rainbow and Zama oilfields of Northwestern Alberta.

In addition a projects department has been set up capable of handling construction of compressor stations, small gas plants and water injection facilities.

An indication of the more optimistic outlook of the Canadian Well division is in the fact that November 1968 showed the highest single month of sales in that company's history.

As a part of the organizational realignment of Kenting, the Tamarack Petroleum subsidiary was placed under Canadian Well. Tamarack manages producing oil wells and provides oil field consulting services.

OTHER SERVICES

Kenting's interest in CDP Computer Data Processors Ltd. is discussed in the President's letter to the shareholders. However it can be noted that the company's use of this computer capability was expanded in 1968, particularly through Operation Geoquest. In addition the mining exploration division (Huntec) is expected to make use of CDP facilities in 1969. CDP equipment includes two CDC 3300 digital computers, SIE analogue-digital-analogue tape converter, a flat bed plotter, seismic display camera plotter and digitizing capability.

Instrument sales, an offshoot of Huntec research and development capability, maintained a modest level of improvement in 1969. In addition civil engineering services by Huntec and oceanographic services and equipment were also provided by this division.

KENTING

KENTING LIMITED AND SUBSIDIARIES
(formerly Kenting Aviation Limited)

CONSOLIDATED FINANCIAL REPORT
For the year ended December 31, 1968

PRICE WATERHOUSE & CO.

Calgary, Alberta
February 14, 1969

AUDITORS' REPORT

To the Shareholders of
KENTING LIMITED:
(formerly Kenting Aviation Limited)

We have examined the consolidated balance sheet of Kenting Limited and subsidiaries as at December 31, 1968 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Kenting Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants.

KENTING LIMITED AND SUBSIDIARIES
(formerly Kenting Aviation Limited)

CONSOLIDATED BALANCE SHEET

ASSETS

	As at December 31 1968	1967 (Note 1)
CURRENT ASSETS:		
Cash	$ 307,443	$ 606,059
Temporary investments (Note 4)	75,974	12,193
Accounts receivable	3,225,784	1,900,664
Inventories (Note 2)	2,309,364	1,109,817
Prepaid expenses	152,405	80,633
	6,070,970	3,709,366
DEFERRED RECEIVABLE (Note 3)	393,757	750,000
INVESTMENTS IN OTHER COMPANIES, at cost (Note 4)	314,801	340,600
PROPERTY AND EQUIPMENT, at cost (Note 5)	10,906,800	8,561,476
Less – Accumulated depreciation and depletion	(4,246,142)	(3,274,117)
	6,660,658	5,287,359
DEFERRED CHARGES, at net cost less amortization (Note 9):		
Research and engineering	261,407	–
Other	39,160	–
	300,567	–
GOODWILL – Cost of investment in subsidiaries in excess of book value at date of acquisition (Notes 1, 5 and 7)	231,289	309,431
DEPOSITS AND OTHER ASSETS, at cost	73,865	52,577
	$14,045,907	$10,449,333

Approved on behalf of the Board:

D. N. KENDALL, Director

J. W. STRATH, Director

CONSOLIDATED BALANCE SHEET

LIABILITIES

	As at December 31 1968	1967 (Note 1)
CURRENT LIABILITIES:		
Bank advances, secured	$ 791,499	$ 700,385
Accounts payable and accrued	2,855,490	1,764,955
Notes payable	130,778	–
Income taxes payable	159,230	59,127
Long term debt due within one year	964,617	854,164
	4,901,614	3,378,631
Current portion of deferred income taxes (Note 7)	83,213	–
	4,984,827	3,378,631
PRODUCTION BANK LOAN, secured (Note 3)	393,757	750,000
LONG TERM DEBT (Note 6)	3,316,836	1,870,889
DEFERRED INCOME TAXES (Note 7)	1,479,335	1,200,025
	10,174,755	7,199,545
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 8)		
142,000 6% cumulative redeemable convertible Class A preferred shares of a par value of $12.50 each (Authorized – 142,000 shares)	1,775,000	1,775,000
12,000 6% cumulative redeemable convertible Class B preferred shares of a par value of $30.00 each (Authorized – 12,000 shares)	360,000	360,000
9,000 6% cumulative redeemable convertible Class C preferred shares first series of a par value of $33.50 each (Authorized – 150,000 Class C preferred shares issuable in series)	301,500	–
317,512 common shares of a par value of 50c each (Authorized – 1,000,000 shares)	158,756	144,911
PAID IN SURPLUS (Note 8)	54,237	–
RETAINED EARNINGS (Note 10)	1,221,659	969,877
	3,871,152	3,249,788
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)		
	$14,045,907	$10,449,333

KENTING LIMITED AND SUBSIDIARIES
(formerly Kenting Aviation Limited)

CONSOLIDATED STATEMENT OF INCOME

	For the year ended December 31	
	1968	1967 (Note 1)
Operating revenue	$13,800,864	$ 9,823,170
Sundry income	54,743	31,812
	13,855,607	9,854,982
Costs and expenses:		
Costs of operating and sales	10,157,620	6,785,108
Administration and general	1,937,361	1,126,080
Interest on long term debt	277,182	145,082
Current income taxes	109,466	76,100
	12,481,629	8,132,370
	1,373,978	1,722,612
Provision for depreciation and depletion	676,025	613,478
Amortization of deferred charges	62,291	–
Deferred income taxes (Note 7)	229,533	421,600
Deferred income taxes – credited to Goodwill (Note 7)	77,207	–
Profit on disposal of property and equipment	(52,106)	(56,391)
	992,950	978,687
Income before special items	381,028	743,925
Special items:		
Profit on disposal of investments	82,629	–
Depreciation adjustment, net of deferred income taxes (Note 5)	26,426	68,183
	109,055	68,183
Income before the following deduction	490,083	812,108
Portion of net income of "pooled companies" applicable to purchase	–	69,745
Net income for year	$ 490,083	$ 742,363

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	For the year ended December 31	
	1968	1967 (Note 1)
Balance, beginning of year	$ 950,374	$ 300,091
Add – Retained earnings at beginning of year of company acquired – "Pooling of interests" (Note 1)	–	74,221
	950,374	374,312
Add – Net income for year	490,083	742,363
	1,440,457	1,116,675
Less – Dividends paid:		
Class A Preferred	106,500	3,210
Class B Preferred	16,268	–
Class C Preferred	3,418	–
Common	92,612	63,997
	218,798	67,207
Deferment of prior year's gain on sale of investments	–	88,662
Deficit of subsidiary company in which majority interest acquired during year	–	10,432
	218,798	166,301
Balance, end of year	$1,221,659	$ 950,374

(The 1967 retained earnings shown in the comparative balance sheet are $969,877; the difference of $19,503 represents the stated value of capital stock of the company acquired in 1968 through a "pooling of interests".)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	For the year ended December 31	
	1968	1967 (Note 1)
Source of funds:		
Revenue from all sources	$13,855,607	$9,854,982
Less – Costs of operating and sales, administration and general expenses, long term debt interest and current income taxes	12,481,629	8,132,370
Funds from operations	1,373,978	1,722,612
Long term borrowing	2,416,513	1,240,103
Proceeds from property and equipment disposals	378,480	480,422
Disposal of investments	182,390	–
Sale of common shares for cash	41,288	74,250
Deferred receivable	356,243	(750,000)
	$ 4,748,892	$2,767,387
Application of funds:		
Additions to property and equipment	$ 1,578,548	$1,711,606
Deferred charges	69,453	–
Dividends paid	218,798	67,207
Decrease in long term debt	1,274,749	1,050,341
Investment in other companies	76,177	79,182
Acquisition of subsidiaries	360,198	542,368
Other	17,576	(2,441)
Production bank loan	356,243	(750,000)
	3,951,742	2,698,263
Increase in working capital, excluding current portion of deferred income taxes	797,150	69,124
	$ 4,748,892	$2,767,387

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1968

NOTE 1. PRINCIPLES OF CONSOLIDATION:

On April 22, 1968, the Company's name was changed from Kenting Aviation Limited to Kenting Limited. The consolidated financial statements include the accounts of the Company's subsidiaries all of which are wholly owned.

As the result of a share exchange in October 1968, Big Indian Drilling Co. Ltd. became a subsidiary of the Company. This exchange has been accounted for on a "pooling of interests" basis and accordingly the operations of Big Indian for the full year have been included in the consolidated statement of income. The excess of the issue value of Kenting capital stock over the stated value of the outstanding capital stock of Big Indian, together with acquisition costs, have been charged to paid in surplus. For comparative purposes, the 1967 financial statements have been restated to include the accounts of Big Indian.

As of July 1, 1968 the Company purchased for cash all of the outstanding share capital of Canadian Well Services and Tank Co. Ltd. and two affiliated companies. Effective April 1, 1968 the Company issued 12,214 common shares for an assignment of certain indebtedness by major creditors and all the outstanding capital stock of Kenting Exploration Services Limited (formerly Huntec Limited). During November 1968, the Company increased its interest in Tamarack Petroleums Ltd. to 100% by issuing common shares and a cash payment. These transactions have been accounted for as purchases and the accounts of these companies have been included in the consolidated financial statements since the respective acquisition dates. Differences between the cash considerations plus the value of shares issued and the net book values of the acquired companies have been charged (credited in the case of Canadian Well) to the account "Goodwill".

Kenting Exploration Services Limited had incurred, prior to acquisition, operating losses which could result in future income tax reductions for which

no provision has been made in the accounts.

In the opinion of management, there is no present indication that the balance of the intangible asset, "Goodwill", has a determinable life or existence and accordingly it is not being amortized except to the extent outlined in Note 7.

NOTE 2. INVENTORIES:

	1968	1967 (Note 1)
Materials and supplies, at cost	$ 884,627	$ 322,156
Work in process, at cost	89,230	–
Work and contracts in progress, at cost less billings to date (i)	1,243,145	787,661
Finished goods, at lower of cost or net realizable value	92,362	–
	$2,309,364	$1,109,817

(i) During the year the Company undertook an integrated geophysical/geological project ("Operation Geoquest"). Certain portions of this project were completed by December 31, 1968 and the applicable earned revenue and related costs are included in the statement of income. Costs incurred, less progress billings to date under existing contracts, with respect to the incomplete portions of the project have been included in the net amount of $253,747 in the above account. In the opinion of management these net costs, plus costs of completion, will be recovered by December 31, 1969 from presently contracted but unearned revenue and from anticipated sales.

While the survey was initiated and partially financed through the participation of a number of oil companies who received and are to receive the technical data, the Company has retained proprietary rights to all future sales.

NOTE 3. DEFERRED RECEIVABLE - $393,757; PRODUCTION BANK LOAN - $393,757:

The deferred account receivable represents the balance of an oil production payment which, it is estimated, will be recovered in 1969. This payment was financed through bank loans. Although these loans are evidenced by demand notes, the bank has indicated that it is prepared to accept repayment out of the net proceeds of production.

NOTE 4. INVESTMENTS:

The Company, through one of its subsidiaries, owned 88,945 shares of CDP Computer Data Processors Ltd. at December 31, 1968 the costs of which amounted to $250,615 ($2.82 per share). Subsequent to the year end 14,920 shares were sold for $170,208 and accordingly $42,074, representing the cost of these shares, has been included in the current asset account, "Temporary Investments".

Another subsidiary sold, subsequent to the year end, a portion of its investments for $50,200; the cost of this investment, $31,800, has been included in the current asset account, "Temporary Investments".

NOTE 5. PROPERTY AND EQUIPMENT:

	1968	1967 (Note 1)
Aircraft and helicopter division	$ 3,998,290	$3,532,464
Drilling division	3,688,687	3,273,052
Seismic and instrument division	1,920,438	1,224,682
Oilfield construction division	815,789	–
Oil and gas properties	483,596	531,278
	10,906,800	8,561,476
Less –		
Accumulated depreciation	4,156,508	3,201,633
Accumulated depletion	89,634	72,484
	4,246,142	3,274,117
	$ 6,660,658	$5,287,359

NOTE 5 -- Continued

Depreciation of property and equipment is provided at rates which will amortize cost, less estimated salvage values, over the estimated service lives of the respective assets. As a result of establishing salvage values and conforming depreciation policies within the Company and subsidiaries an adjustment of $95,442 was made to the accumulated depreciation of Foothills Aviation Limited. As the acquisition of Foothills was accounted for as a "partial pooling of interests", 50% of this adjustment less applicable deferred income taxes has been included in the statement of income as a special item. The balance less applicable deferred income taxes has been credited to the account, "Goodwill".

The companies follow the full cost method of accounting for interests in oil and gas properties whereby all costs related to the exploration for and development of oil and gas reserves, whether productive or unproductive, are capitalized and proceeds on disposal of properties are deducted from cost without recognition of profit or loss. Depletion of costs is computed by a composite unit of production method based on total estimated proven reserves.

NOTE 6. LONG TERM DEBT:

	1968	1967 (Note 1)
7½% Convertible sinking fund debentures (i)	$1,250,000	$ –
8% Debenture, repayable in monthly instalments of $15,800 (secured by fixed and floating charge on aircraft)	433,600	623,200
Term bank loan, repayable in quarterly instalments of $37,500 and interest at prime plus 1½% (secured by demand debenture, fixed and floating charge)	587,500	500,000
Non-interest bearing advance under contract, repayable in monthly instalments of $5,656	151,496	217,446
3% Debenture, due December 1981, but agreed to be repaid by July 1972 (unsecured)	140,000	140,000
7% Note, repayable in monthly instalments of $5,076 (secured by chattel mortgage on a drilling rig)	171,964	232,845
6% Note, repayable $80,000 in January 1970 (unsecured)	80,000	130,000
Mortgages, repayable in monthly instalments of approximately $9,120 at various interest rates not exceeding 10% (secured by land mortgages and retention of title to equipment)	303,814	281,752
7½% to 10½% Term bank loans, repayable in monthly instalments of $17,605 (secured by general assignment of accounts receivable, certain producing oil and gas properties, demand debenture, fixed and floating charge)	769,832	266,807
Sundry notes, conditional sales agreements, etc., repayable in monthly instalments of approximately $9,400 at various interest rates between 5% and 10% (secured by retention of title to certain aircraft and equipment)	200,429	333,003
7% Promissory note, repayable in five annual instalments of $25,000	125,000	–
8% Notes payable July 1974	67,818	–
	4,281,453	2,725,053
Less – Payments due within one year included in current liabilities	964,617	854,164
Long term debt due beyond one year	$3,316,836	$1,870,889

NOTE 6 -- Continued

(i) 7½% Convertible sinking fund debentures Series A, due May 15, 1980, interest payable semi-annually, requiring sinking fund payments of $100,000 annually from 1970 to 1979 inclusive. Each $1,000 principal amount is convertible into 30 common shares to May 15, 1973 and thereafter into 25 common shares to May 15, 1978, and is redeemable at a reducing premium otherwise than out of the sinking fund after May 15, 1972. Under the terms of the Trust Indenture the debentures are a direct obligation of the Company but are not secured by any mortgage, pledge or charge.

(ii) Long term debt which is repayable in United States dollars has been converted to Canadian dollars.

NOTE 7. INCOME TAXES:

Under the provisions of the Income Tax Act the companies are entitled, for tax purposes, to claim depreciation and other costs in excess of the amounts recorded in the accounts, to carry forward and deduct certain oil and gas drilling and exploration costs which have been capitalized for accounting purposes and to deduct tax loss carry-forwards. As it is the policy of the companies to claim maximum tax allowances, the net amounts claimed for tax purposes are in excess of the related charges to earnings.

With the exception of the subsidiary, Kenting Exploration Services Limited, deferred income taxes have been provided on this accumulated excess and are applicable to those future years when allowances for income tax purposes will be less than the related amounts charged to earnings. The portion of deferred income taxes ($83,213) included in current liabilities relates to current asset accounts the amounts of which were claimed for income tax purposes.

As outlined in Note 1, no provision has been made for possible future tax benefits arising from loss carry-forwards of Kenting Exploration Services Limited which at December 31, 1968, amounted to approximately $195,000. A charge has been included in the statement of income to reflect the applicable deferred taxes had no loss carry-forward been available; the corresponding credit was made to the account, "Goodwill".

NOTE 8. CAPITAL STOCK:

Pursuant to supplementary letters patent dated June 8, 1968 the Class B preferred shares are entitled to one vote at all shareholders' meetings for each such share held.

Under supplementary letters patent dated October 10, 1968 the authorized capital of the Company was increased by the creation of 150,000 Class C preferred shares of a par value of $33.50 each, issuable in one or more series. During 1968, 9,000 shares were issued and designated as Class C preferred shares first series. The Class C preferred shares first series are 6% cumulative, convertible share for share into common shares at any time between October 10, 1968 and January 15, 1974, redeemable at any time after December 31, 1968 at $35.51 reducing by 16¾c each year to $33.50 after December 31, 1980 and are entitled to one vote at all shareholders' meetings for each such share held.

During 1968 the various classes of capital stock issued were as follows:

	Common Shares			Class C Preferred Shares	
	Shares	Par value	Paid in surplus	Shares	Par Value
Balance, December 31, 1967 . . .	289,823	$144,911	$ –	–	$ –
Issued in exchange for shares and debt:					
Big Indian Drilling Co. Ltd. . . .	9,000	4,500	–	9,000	301,500
Kenting Exploration Services Limited (formerly Huntec Limited)	12,214	6,107	287,029	–	–
Tamarack Petroleums Ltd. . . .	1,500	750	29,250	–	–
	312,537	156,268	316,279	9,000	301,500
Issued for cash under warrants and options	4,975	2,488	38,800	–	–
Elimination under "Pooling of interests" (Note 1)	–	–	(300,842)	–	–
Balance, December 31, 1968	317,512	$158,756	$ 54,237	9,000	$301,500

NOTE 8 -- Continued

The following warrants and options are outstanding as at December 31, 1968:

Warrants –

55,275 entitling holders to purchase one common share for each warrant at $8.50 per share at the rate of 7,275 common shares during the period January 1 to June 30, 1969 and 12,000 common shares per year during the period July 1, 1969 to June 30, 1973 on a non-cumulative basis.

4,000 entitling holders to purchase one common share for each warrant at $20.00 per share during the period from December 1, 1968 to November 30, 1973 at the rate of 800 common shares per year on a non-cumulative basis.

Employees' options –

250 at $4.50 per common share in 1969

1,000 at $26.10 per common share at the rate of 200 each year on a cumulative basis to October 6, 1973

1,500 at $21.50 per common share at the rate of 300 each year on a cumulative basis to November 7, 1972

2,000 at $24.30 per common share at the rate of 400 each year on a cumulative basis to March 24, 1973.

The Company has reserved 264,525 common shares for the possible conversion of preferred shares, sinking fund debentures Series A and exercise of outstanding warrants and options.

NOTE 9. COMMITMENTS AND CONTINGENT LIABILITIES:

The Company has guaranteed the indebtedness of others in the amount of $51,000.

To December 31, 1968 the Company had received or expected to receive various instrument development grants totalling approximately $85,000 from the Federal Government. In the event that a commercially successful product is developed, the grants are repayable.

The Company has commitments under the following lease agreements:

		Payable	Annual Rental	Expiry Date
Jet Commander Aircraft	(i)	Quarterly	$145,456	December 1975
Jet Commander Aircraft		Monthly	104,000	July 1970
Office building and land	(i)	Monthly	19,500	December 1988
Technical equipment	(i)	Monthly	79,092	October 1969

(i) Agreement contains an option to purchase

Under the terms of the Big Indian Drilling Co. Ltd. share exchange the Company may be required to pay up to $215,000 cash to the vendors should earnings of Big Indian reach certain levels (such levels being in excess of historical earnings) during the period to April 30, 1971.

The Company has entered into contracts for the construction of a mobile offshore drilling rig. Estimated total capital outlay is $2.4 million for which bank financing is being arranged. A three-year drilling contract has been obtained and offshore drilling operations are to commence on Lake Erie in 1969.

NOTE 10. DIVIDENDS:

Under the terms of issue of preferred shares payment of dividends, except stock dividends, on the common shares is subject to certain restrictions. In accordance with these terms the amount available for payment of dividends on common stock is not less than the retained earnings shown in the consolidated balance sheet as at December 31, 1968.

NOTE 11. REMUNERATION OF DIRECTORS AND OFFICERS:

Included in administrative expenses for 1968 is remuneration paid to directors, including senior officers, of $219,621.

FIVE YEAR EARNINGS SUMMARY "POOLING OF INTEREST"

1. The figures shown below have been restated from those previously reported by combining the accounts of Kenting Limited, Boundary Drilling Ltd., Accurate Exploration Ltd., Foothills Aviation Limited and Big Indian Drilling Co. Ltd. on a "pooling of interests" basis explained in Note 1 to the financial statements. Certain accounts have also been reclassified.
2. Certain subsidiaries had, prior to acquisition, tax loss carry forwards available which reduced taxable income in 1966, 1965 and 1964. These tax reductions have been set out separately below.
3. Earnings attributable to common shares is based upon the weighted average number outstanding (after giving effect to common shares exchanged for Boundary, Accurate, Foothills and Big Indian) during each year and after providing for dividends on preferred shares of $146,000, although preferred dividends were not paid until 1967 and amounted to only $3,000 in 1967 and $126,000 in 1968. For purposes of the calculation deferred income taxes include those in respect of operations and special items. Provision has not been made for possible future conversion of preferred shares and debentures or exercise of warrants and options as outlined in Note 8 to the financial statements.

	1968	1967	1966	1965	1964
Revenue	$13,856,000	9,855,000	8,643,000	7,356,000	5,363,000
Costs of operating and sales	10,158,000	6,785,000	5,870,000	4,896,000	4,089,000
Administration and general	1,937,000	1,126,000	915,000	707,000	529,000
Interest on long term debt	277,000	145,000	98,000	94,000	79,000
Current income taxes	110,000	76,000	379,000	310,000	110,000
	12,482,000	8,132,000	7,262,000	6,007,000	4,807,000
	1,374,000	1,723,000	1,381,000	1,349,000	556,000
Depreciation, depletion and amortization	738,000	613,000	572,000	580,000	359,000
Profit on disposal of capital assets	(52,000)	(56,000)	(64,000)	(33,000)	(165,000)
Special items – Net of applicable deferred income taxes	(109,000)	(68,000)	60,000	64,000	–
Portion of net income of pooled companies applicable to purchase	–	70,000	49,000	37,000	56,000
	577,000	559,000	617,000	648,000	250,000
	797,000	1,164,000	764,000	701,000	306,000
Deferred income taxes	307,000	422,000	210,000	236,000	83,000
	490,000	742,000	554,000	465,000	223,000
Income tax reduction	–	–	250,000	210,000	40,000
Net income for the year	$ 490,000	742,000	804,000	675,000	263,000
Preferred stock dividends (Note 3)	$ 146,000	146,000	146,000	146,000	146,000
Earnings attributable to each common share (Note 3) –					
Before deferred income taxes and income tax reduction	$ 2.17	3.78	2.40	2.38	.69
Before income tax reduction	1.11	2.08	1.58	1.37	.33
On net income	1.11	2.08	2.55	2.27	.50
Weighted average number of common shares outstanding	309,585	286,823	257,912	233,500	233,500

FIVE YEAR EARNINGS SUMMARY

	Current Year 1968	As previously reported to shareholders 1967	1966	1965	1964
Revenue	$13,856,000	8,311,000	1,553,000	1,284,000	1,014,000
Costs of operating and sales	10,158,000	5,556,000	1,161,000	964,000	863,000
Administration and general	1,937,000	1,007,000	97,000	47,000	34,000
Interest on long term debt	277,000	141,000	30,000	23,000	7,000
Current income taxes	110,000	70,000	8,000	14,000	4,000
	12,482,000	6,774,000	1,296,000	1,048,000	908,000
	1,374,000	1,537,000	257,000	236,000	106,000
Depreciation, depletion and amortization	738,000	535,000	199,000	168,000	101,000
Profit on disposal of capital assets	(52,000)	–	–	–	–
Special items – Net of deferred income taxes	(109,000)	(109,000)	(36,000)	(3,000)	(55,000)
Portion of net income of pooled companies applicable to purchase	–	70,000	–	–	–
	577,000	496,000	163,000	165,000	46,000
	797,000	1,041,000	94,000	71,000	60,000
Deferred income taxes	307,000	357,000	15,000	25,000	–
Net income for the year	$ 490,000	684,000	79,000	46,000	60,000
Weighted average number of common shares outstanding	309,585	277,823	124,411	100,000	100,000
Earnings attributable to each common share –					
Before deferred taxes	$ 2.17	3.58	.99	.73	1.21
After deferred taxes	1.11	2.00	.63	.46	.60
Common share dividends –					
Per share	30c	30c	30c	30c	15c
Aggregate	$ 92,612	63,997	37,324	30,000	15,000
Class A Preferred share dividends –					
Per share	75c	2.2c	–	–	–
Aggregate	$ 106,500	3,210	–	–	–
Class B Preferred share dividends –					
Per share	$ 1.36	–	–	–	–
Aggregate	$ 16,268	–	–	–	–
Class C Preferred first series share dividends –					
Per share	.38c	–	–	–	–
Aggregate	$ 3,418	–	–	–	–

Note: 1968 is prepared on a "pooling of interests" basis as described in Note 1 to the financial statements. 1967 is prepared on the pooling of interests as reported to shareholders last year; no adjustment has been made for the Big Indian Drilling Co. Ltd. pooling.

Note: 1964 has been adjusted to reflect deferred income taxes on aircraft disposals included in special items.

File

KENTING

ACCURATE EXPLORATION DIVISION
524 - 11 Avenue S.W., Calgary
Phone: 403 - 263-1701

Division President—G. F. (Bud) Coote
Vice-President, Operations—Marshall W. Dewis

PETROLIA OILWELL DRILLING DIVISION
Texaco Building, Calgary
Phone: 403 - 263-2980

Division President—Lawrence R. Herrington
Vice-President, Production—
Antonie VandenBrink
Vice-President, Contracts—Donald J. Fleming
Vice-President, Financial Planning—
Graham D. Ross

KENTING AVIATION DIVISION
Toronto International Airport, P.O. Box 1001,
Malton, Ontario
Phone: 416 - 677-3650

Vice-President, Operations—Allan F. Soutar
Manager, Aircraft Operations—Evan Jones
Manager, Aviation Sales—J. Bryan Hayter

ASSOCIATED SERVICES
Geological and Geophysical Consulting
Computer Data Processing
Drilling and Completion
Management

PARENT COMPANY
Kenting Aviation Ltd.,
1450 O'Connor Drive, Toronto 16, Ontario
Phone. 416 - 755-1141

President—Douglas N. Kendall

KENTING

A New Service for
Exploration of the Northland

A COMPLETE SERVICE PACKAGE

Kenting is the first company to offer a complete service package for exploration of the Northland. It is now possible for clients to obtain all of these services from one company:

- Planning and Logistics
- Comprehensive Communication Systems
- Geological Computer Evaluation
- Aerial Survey
- Fixed Wing Air Transportation
- Seismic Exploration
- Helicopter Support
- Geophysical Computer Evaluation
- Geophysical Interpretation
- Geological Interpretation
- Drilling Management
- Land Transportation
- Oilwell Drilling
- Completion Management
- Production Management

Each service includes decades of accumulated knowledge of Canada's North. All the divisions have extensive experience moving men and equipment, performing assignments despite the weather, and maintaining communications under the most rugged conditions.

BENEFITS TO CLIENT

The benefits to the client are several. First he only deals with one organization—thus saving supervisory time and costs.

Second, certain major steps of the coordinating role are carried out by Kenting rather than the client. This is the user of time for the client—deciding methods of transportation, scheduling each service so they dovetail, avoiding duplication of effort, avoiding time gaps due to misunderstanding.

Third, the cost is lower. Kenting divisions share knowledge and experience, and are therefore able to reduce charges. Also, if the client uses package service the risk for each Kenting division is reduced and the client pays less for the total than for the sum of the parts.

Fourth, the job is completed sooner. Seasonal factors—muskeg, permafrost, weather—are important in the north. Through integration of steps Kenting is capable of finishing assignments before seasonal shutdowns are necessary.

KENTING EQUIPMENT

SURVEY

- Three seismic recording crews equipped for land, muskeg and marine surveys.
- Aerial electronic survey gear.

RIGS

- Nine drilling rigs with depth capability ranging from 3,000 to 18,000 feet.

TRANSPORTATION

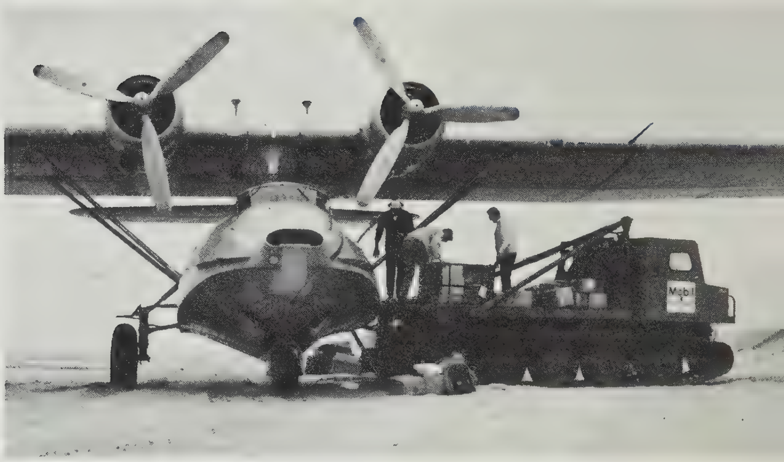
- 22 aircraft (including five water bombers, 10 helicopters, one jet.)
- 12 tracked vehicles.
- Two boats and a barge.

COMMUNICATIONS

- Radio receivers and transmitters.

COMPUTERS

- CDC 3300 Digital Computer
- SIE Analogue-Digital-Analogue Tape Converter.



Canso flying in support of a Sable Island drilling operation.

KENTING AVIATION DIVISION

- Aerial surveys
- Fixed wing airlifts and charters
- Helicopter charters

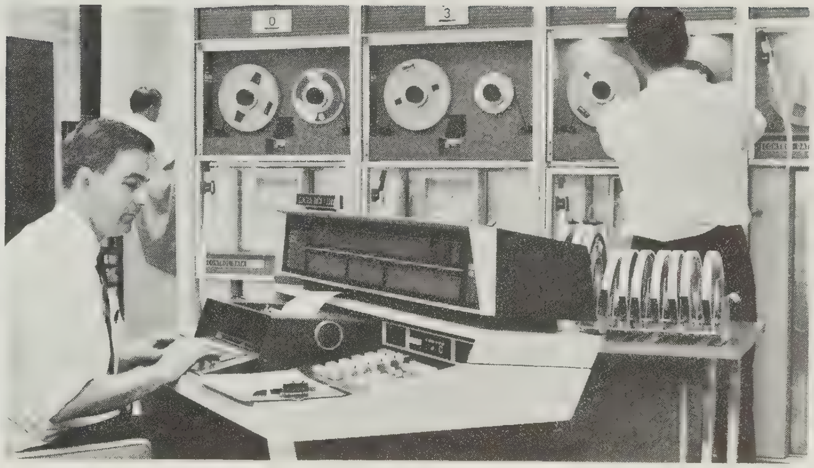
Kenting was the first company in Canada to operate a helicopter year-round in the Canadian Arctic (on the Dew Line). It is believed to be the only aviation company that has operated on all continents, including Antarctica, in the course of completing contracts in over 50 countries. One of its major contracts is a five-year ice reconnaissance project for the Canadian government.

The division has also carried out geophysical and lake pollution surveys, and played a leading role in the development of water bomber techniques.

In addition, several helicopters and executive aircraft (including one jet) are operated on a charter basis.

ng in Rainbow Lake.

Marine seismic operations in Mackenzie River.



Geological, geophysical and engineering with digital computer.

ACCURATE EXPLORATION DIVISION

- Seismic surveys on land, muskeg and water.

Accurate has conducted seismic surveys throughout most of the Western Canadian sedimentary basin, on muskeg in the Northland in the Canadian Rockies, and even on the Mackenzie River and the Arctic Ocean.

Extensive experience and equipment have been accumulated to handle the most difficult transportation and communication problems.

To move equipment across muskeg the division uses specially designed tracked vehicles or helicopters. For marine seismic work boats are used. Helicopters, fixed wing aircraft and other land vehicles also provide transportation as required.

The division uses a digital process centre for playback of recorded data.

PETROLIA OILWELL DRILLING DIVISION

- Oilwell Drilling

Petrolia specializes in drilling in remote areas where planned operations are essential. Its rigs are self-contained units relatively independent of centralized supplies or parts replacement.

Another special characteristic is the use of scientific analysis of holes previously drilled in a given area. This data is used to program future holes in the area, with the result that drilling time is often substantially reduced.

Petrolia drilled the second well heralding the Rainbow Lake development in Northwestern Alberta and is still active in this area. It has also drilled wells throughout Western Canada, as well as in Nova Scotia, New Brunswick and Quebec.

AR10

INTERIM REPORT TO THE SHAREHOLDERS

FOR THE SIX-MONTH PERIOD ENDING JUNE 30, 1968

fil

KENTING LIMITED

TO THE SHAREHOLDERS:

The after-tax profit for the six-month period ended June 30, 1968 is $77,402. This is lower than in the comparable period in 1967 for a number of reasons including the facts that we have taken into costs certain expenditures which will be reflected in higher earnings in the second half of the year and that the 1967 figures, unlike those of 1968, do not reflect the losses which our mining geophysical division (Huntec Limited) inevitably incurs in the first half of the year due to the nature of its business.

The bulk of Kenting's divisions are seasonal in their earnings. In particular our helicopter and fixed wing aircraft divisions as well as our mining geophysical business, accumulate losses in the first half of the year to be offset by earnings in the second period.

Nonetheless the earnings are somewhat below prediction for three main reasons. First there was a general reduction in oil exploration activity in the early part of the year which caused some reduction in Kenting's revenue from drilling and seismic activities; second this revenue was further reduced by the unusually early break-up in the Spring; and third we had added helicopters to increase our fleet from 19 to 25 machines and therefore had to absorb higher depreciation and mobilization costs in the first part of the year to be offset, of course, later by higher earnings.

The drop-off in oil exploration activity apparent in the early part of the year has reversed and we now have an excellent loading position in all our companies which we expect to maintain for the balance of this year. We have confidence therefore, that the year-end results will pull back towards our planned projections. It is already clear, for instance, that our earnings in the helicopter, fixed wing, and seismic divisions will exceed those of 1967.

Perhaps the biggest step which we have taken to increase our future earnings has been the launching of what we have called "Operation Geoquest". This involves the management on behalf of some 20 oil companies of a large exploration program covering 75,000 square miles in the Northwest Territories. It includes the use in varying degrees of six of our divisions and has demonstrated in a practical way the importance of our concept of providing an integrated exploration service. In the first half of the year this project has absorbed a considerable part of our capacity but without it being possible to bring any of the revenue into the consolidated earnings of that period.

Our associated computer company, CDP Computer Data Processors Ltd., in which we hold a 43% interest, has just completed an excellent year, representing a

complete turn-around from the poor results which were noted in our last annual report. We expect the next twelve months to show further good growth. These earnings have not, of course, been taken into ours.

In our last annual report we explained to you that prior to our merger our drilling company had acquired some oil production and land holdings. One of these properties consisted of a 35% share in 300,000 acres off-shore Mackenzie Delta in an area now of high interest. During July we and our partners disposed of this acreage to a major oil company in return for cash plus a 3% override on any production which subsequently develops. The company concerned is proceeding at once with an active exploration program.

We confirm that during the first half of 1968 we acquired Huntec Limited and in July 1968 Canadian Well Services and Tank Co. Ltd. The former is engaged in mining geophysics, earth sciences, research and instrument manufacture, while the latter is the principal company in Western Canada providing oil well management services. We are expecting to complete some additional mergers before the end of this year and will keep you advised of these as matters develop.

The operating figures for Huntec for April, May and June of 1968 have been included in these financial statements. This explains the major part of the increase in "cost of operating". It is also the reason that operating revenue is higher for the period despite some of the previously explained decline in revenues from other operations.

During the first part of the year we sold a debenture issue, which was privately placed, paying 7.5% interest and totalling $1,250,000. This is convertible for five years on the basis of 30 Kenting shares per $1,000 of debenture. This has given us a useful boost in working capital, plus providing funds for the acquisition of Canadian Well Services.

As you are aware our first group of mergers only took place in September 1967, still less than a year ago. We are more convinced than ever that our concept is sound and that there are benefits to each division in these associations. Together we expect both to earn more and to grow faster. This will not happen overnight but should be reflected in a consistent pattern of growth in earnings over the coming years.

D. N. KENDALL
President

August 17, 1968.

KENTING LIMITE

CONSOLIDATED ST

Operating revenue . . . .
Sundry income . . . .

Expenses:
Cost of operating . . . .
Administration and general . . . .
Interest on long-term debt . . . .
Current income taxes . . . .

Cash flow . . . .

Provision for depreciation . . . .
Provision for depletion . . . .
Provision for amortization . . . .
Deferred income taxes . . . .

Income (loss) before special items . . . .

Special items, net of income tax provision
Profit on disposal of capital assets . . . . .
Depreciation adjustment . . . .

Net income . . . .

NOTE: The statements for the six months ended June
basis as described in Note 1 to the consolidat
the annual report to shareholders.

Half-yearly state

CONSOLIDATED STATEMENT OF S

Source of funds:
Cash income from operations . . . .
Long-term borrowing . . . .
Proceeds from property and equipment disposals .
Sale of common shares for cash . . . . . .
Deferred receivable . . . .

Application of funds:
Additions to property and equipment . . . . .
Dividends paid . . . .
Reduction of long-term debt . . . .
Transfer deferred income taxes to current liabilitie
Repayment of bank loans . . . .
Other . . . .

Increase in working capital . . . .

Half-yearly state

) SUBSIDIARIES

IENT OF INCOME

	For the Six Months Ended June 30 1968	1967
. . . .	$4,188,568	$4,070,008
. . . .	44,899	8,688
	4,233,467	4,078,696
. . . .	3,122,825	2,685,397
. . . .	634,721	425,042
. . . .	107,233	71,548
. . . .	62,676	32,135
	3,927,455	3,214,122
. . . .	306,012	864,574
. . . .	231,103	256,522
. . . .	6,649	10,917
. . . .	21,918	–
. . . .	52,375	196,518
	312,045	463,957
. . . .	(6,033)	400,617
. . . .	40,095	21,750
. . . .	43,340	–
	83,435	21,750
. . . .	$ 77,402	$ 422,367

57 have been accounted for on a 'pooling of interests'
ncial statements at December 31, 1967, included in

are unaudited.

CE AND APPLICATION OF FUNDS

	For the Six Months Ended June 30 1968	1967
. . . .	$ 306,012	$ 864,574
. . . .	1,474,384	342,634
. . . .	217,537	177,007
. . . .	–	1,125
. . . .	181,469	–
	2,179,402	1,385,340
. . . .	394,244	481,198
. . . .	104,024	22,361
. . . .	566,392	457,294
. . . .	60,430	–
. . . .	156,250	–
. . . .	28,919	22,763
	1,310,259	983,616
. . . .	$ 869,143	$ 401,724

are unaudited.

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